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Where advisors are changing allocations as rate cuts pick up steam
By Rob Burgess
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The expected Federal Reserve rate cut came to pass this week, and advisors, for the most part, had hoped for it.

And based on Fed comments, advisors are adjusting client asset allocations in anticipation of more Fed rate cuts.

That was according to Financial Planning's September Financial Advisor Confidence Outlook (FACO), a survey of financial advisors and planners that measures confidence in the economy and other factors on a scale of minus-100 to 100.

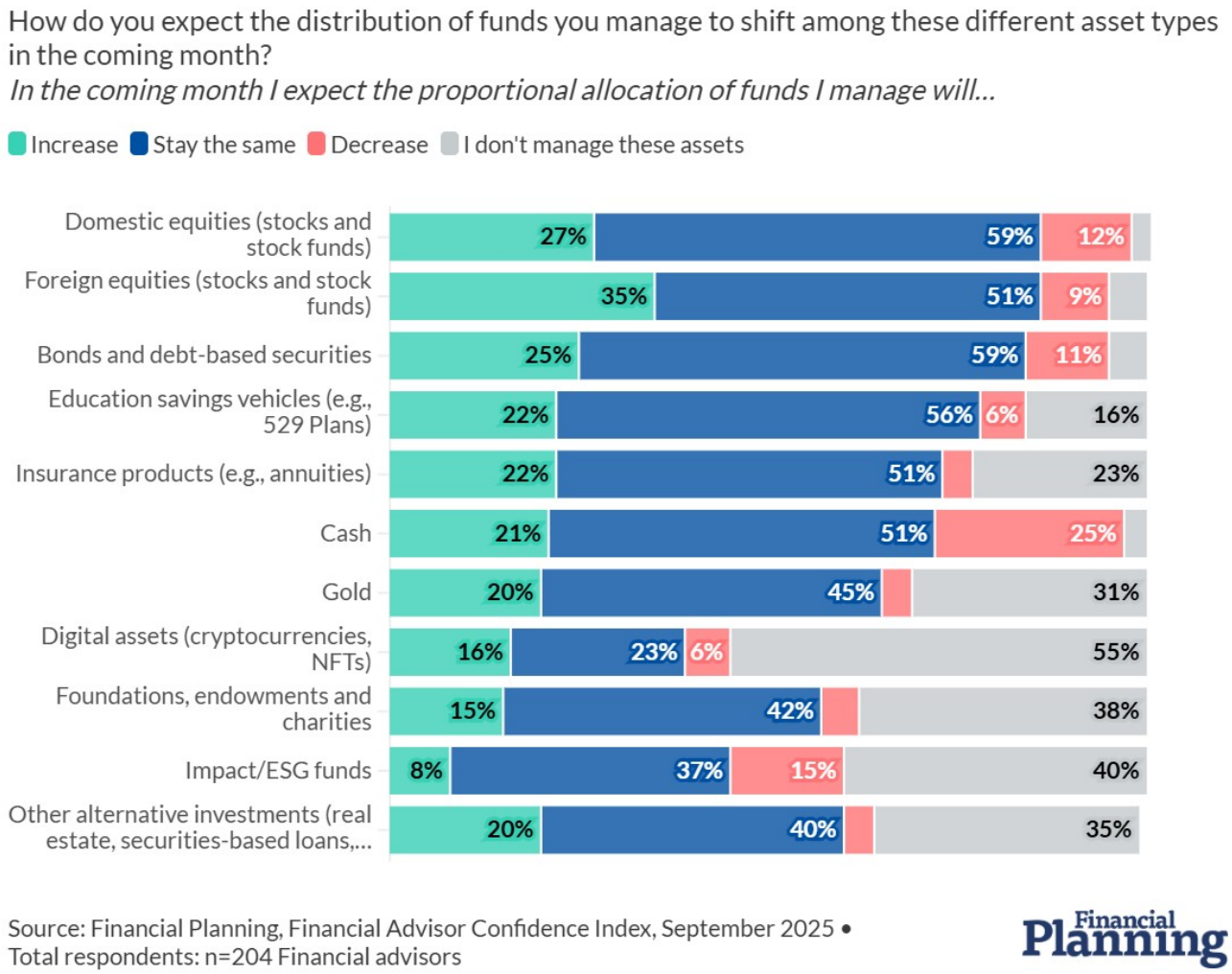
Despite a soaring stock market, a shaky overall economy and threats to the Fed's independence from the administration of President Donald Trump has advisors concerned. Still, many anticipated additional rate cuts to continue through at least the end of the year, as the Fed looks to shore up a stagnant labor market.

Jeanette Garretty, chief economist and managing director at Robertson Stephens in San Francisco, said the rate cut decision was not surprising in light of the notable slowdown in U.S. employment growth.

"The [Fed] knows that monetary policy actions have a lagged effect," she said. "This interest rate cut is as much about where the economy might otherwise be headed as it is about the numbers today."

Given all this, September's FACO data also included a deep dive into how advisors are refiguring asset allocations.

How asset allocations are changing
In short, equities are growing hotter and cash is cooling off.



One-quarter of FACO respondents said they would be moving clients away from cash. Meanwhile, 35% said they were increasing allocations in foreign equities, and 27% said they were moving assets into domestic stocks and bonds.

As his firm's investment decisions are made independent of Fed actions, David Rath, partner and chief investment officer at Continuum Wealth Advisors in Saratoga Springs, New York, said he wasn't planning any immediate changes given the new rate. That could change with time, though, he said.

"As interest rates on savings accounts decline because of Fed action, there will be a conversation to be had about opportunity cost for those clients with large cash balances," he said.

Twenty percent of FACO respondents reported they were moving client assets into alternatives, including real estate, securities-based loans and fungible assets. Cecil Staton, president and wealth advisor at Arch Financial Planning in Athens, Georgia, said further cutting of interest rates could drive U.S. equity valuations even higher as bond yields decline.

"We are looking for opportunities to rebalance from large-cap equities into other asset classes, such as alternatives and real estate," he said. "We are encouraging retired clients to maintain their cash or cash equivalent exposure despite the lower yields."

One-quarter of FACO respondents said they were moving client assets into bond and debt-based securities. Charles Luong, president and investment advisor representative at Endeavor Advisors in Phoenix, said that for his clients, they were modestly extending duration in high-quality bonds, keeping a quality tilt in equities and encouraging refinancing of expensive debt rather than chasing yield.

"Ultimately, the stock market is the most comprehensive and accurate measure of price, and this cut is already baked into the pie," he said. "Any short-term benefit is secondary. The real edge comes from staying disciplined. We build portfolios on science and empirical data, guided by modern portfolio theory, not short-term noise."